



Martin Graham
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London Stock Exchange Group plc

Morgan Stanley Conference - 31 March 2009



Agenda

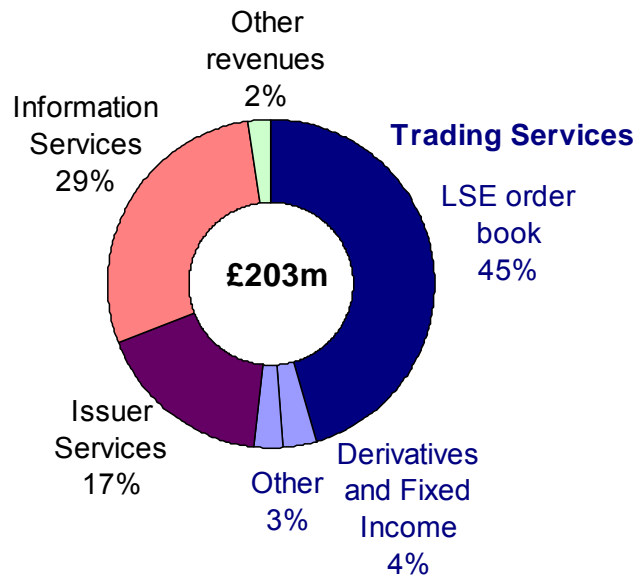
- Overview of business
- Primary markets - current trends
- Secondary market - trading proposition
 - technology
 - membership
 - structural changes
 - pricing
 - market efficiency
 - competition
 - new products/developments
 - data distribution
- Summary and Q&A



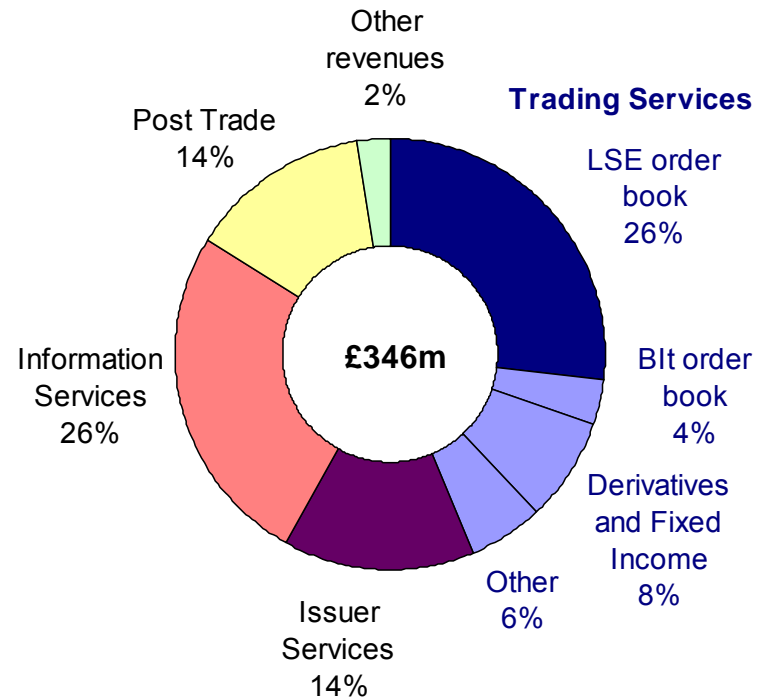
Group revenue

Diversified revenue stream - one-quarter directly from UK cash equity

Group Revenues H1 FY2008

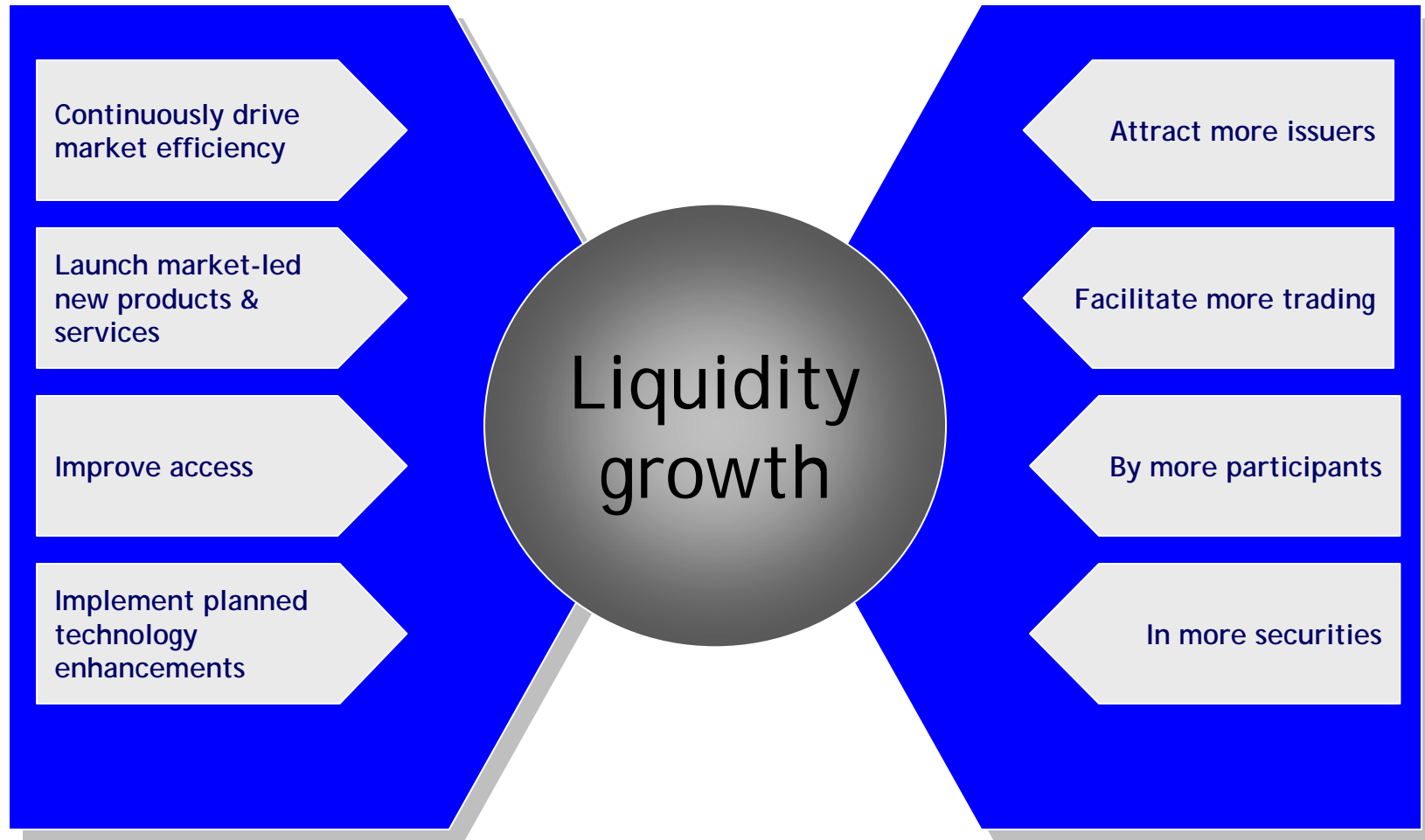


Group Revenues H1 FY2009





Our strategic approach to growing liquidity





Primary markets - our priorities

- Attract new issuers to our markets from around the globe that will be of interest to the existing investor base and draw new investors into our market
- Target growth markets - “bringing the world to London”
- Provide a number of routes to market in order to attract diversity of companies and investment entities e.g. SFM and PSM
- Expanding the AIM franchise: AIM Italy and Tokyo AIM



Issuer Services

- IPO pipeline for London - not empty, but not flowing!
 - Market appeal not fundamentally impaired - International companies remain attracted to London
- Secondary issues
 - £84bn raised in last 11 months
 - More on the way:
 - Refinancing for distressed companies where the banks and debt markets are closed
 - Companies deleveraging
 - Acquisition opportunities
- Re-equitisation is in progress



Our trading proposition is based on...

Liquidity

Europe's deepest pool of liquidity, with critical, real time price formation and central price reference point

Technology

Low latency, high capacity systems with full functionality to provide trading solutions for all market users

Efficiency

Greater certainty of execution, the core of best execution, through our deep liquidity, better spreads, innovative services and the high quality of our market data and rules

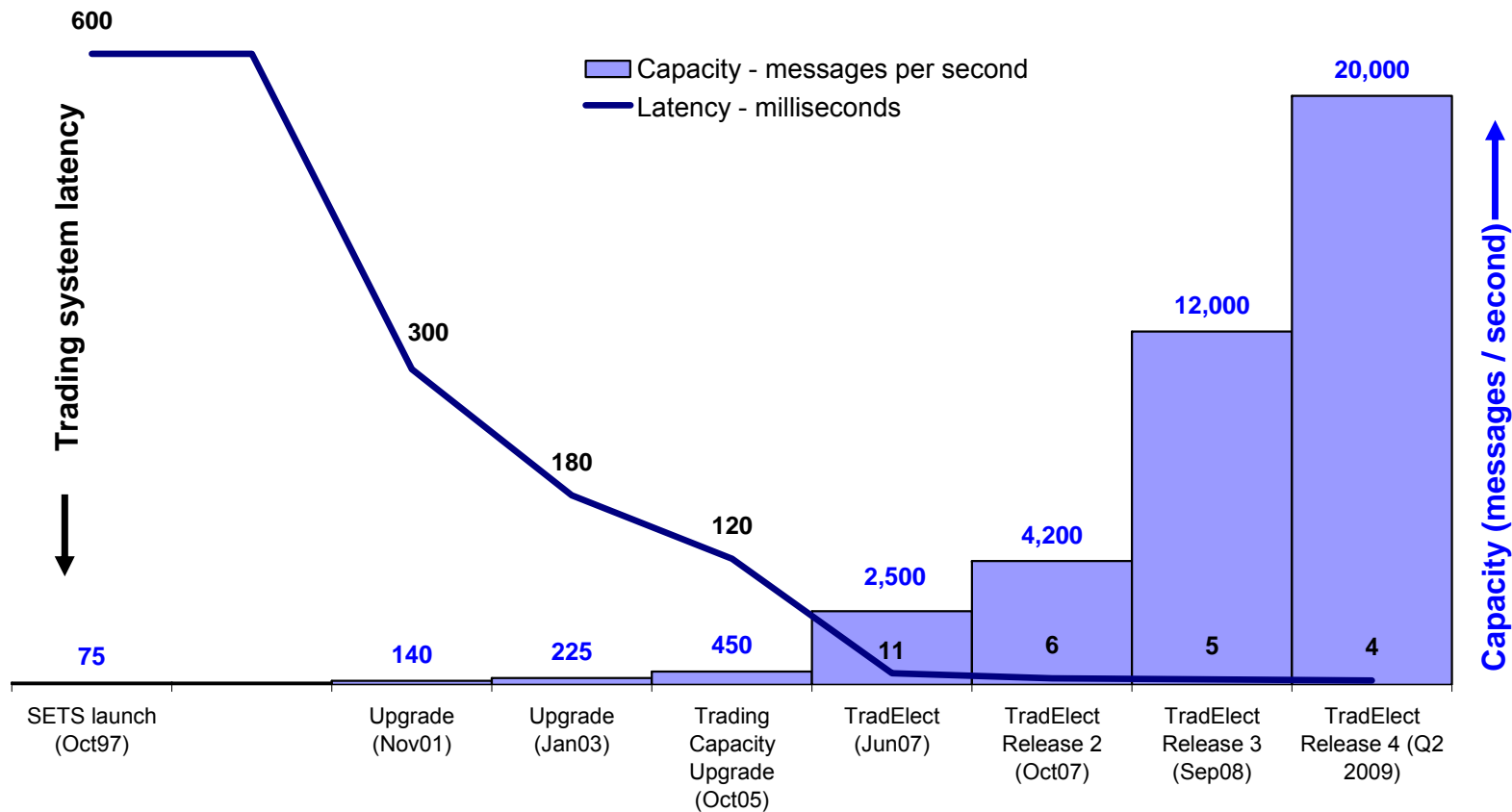
Access

Europe's largest and most diverse international membership with broad range and mix of order flow



TradElect - enabling more efficient trading

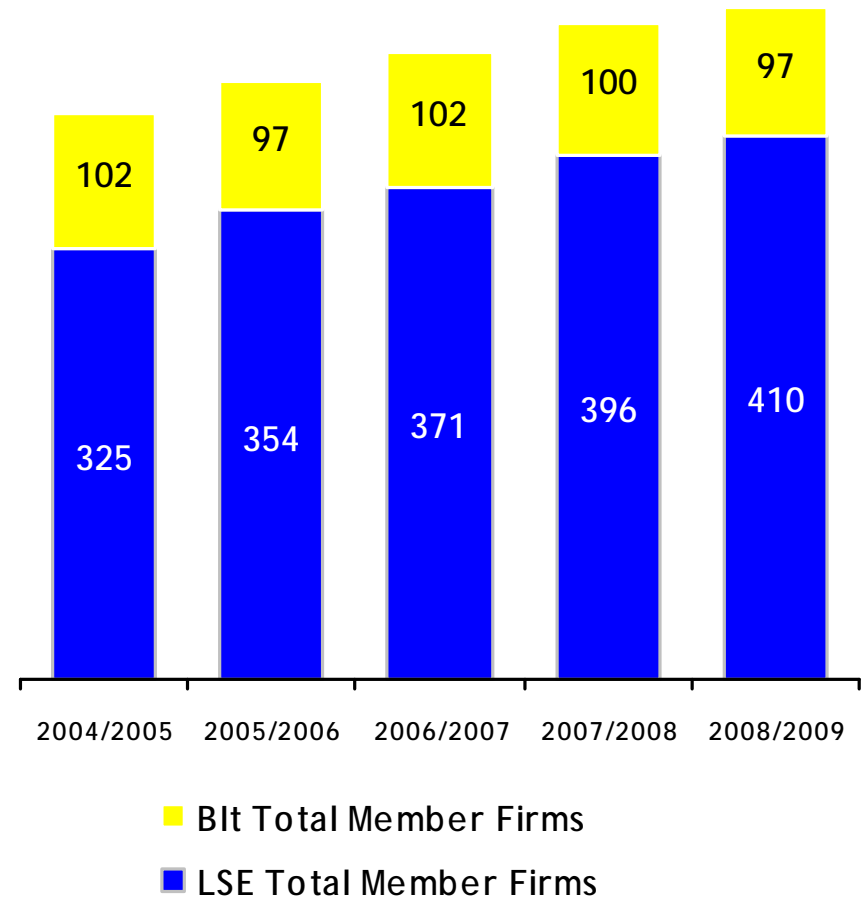
- Autumn 2008 upgrade - capacity up 180% and latency down to 4.6ms
- Migration of Italian equities to TradElect





Enlarging our trading network

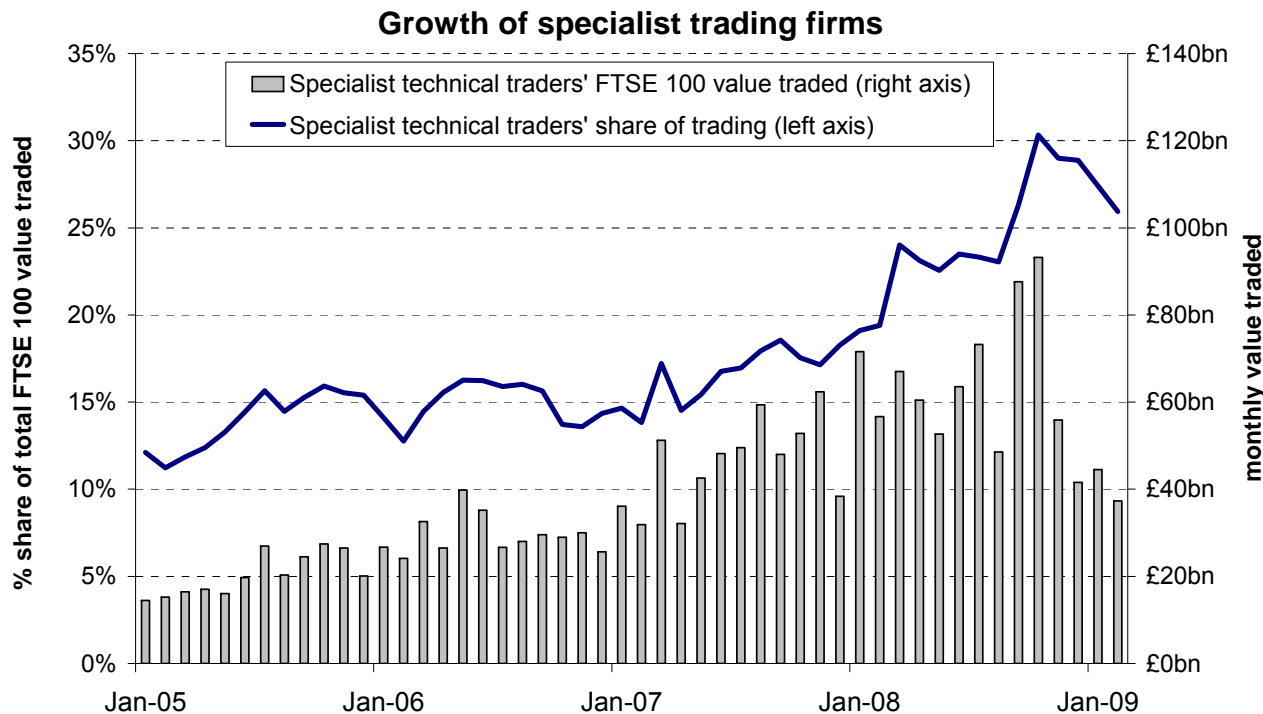
- 507 equity trading members across more than 20 countries
- Cross membership with LSE and Borsa
- Diverse membership provides differentiated flows:
 - Liquidity provision e.g. (technical) market making
 - Aggressive flow e.g. both institutional & retail client flow
 - Specialist flow e.g. proprietary desk and algorithmic / statistical arbitrage flows
- Pipeline of High Frequency Traders





Structural shift to high frequency trading

- Growth of high frequency, highly automated trading firms
- New fee structure rewards electronic liquidity provision



Electronic Liquidity Providers

- Market makers

Arbitrage

- Index
- Statistical
- ETFs / ETCs
- Cross platform

Hedging

- Futures and options
- CFDs



Trading fees - new maker / taker structure

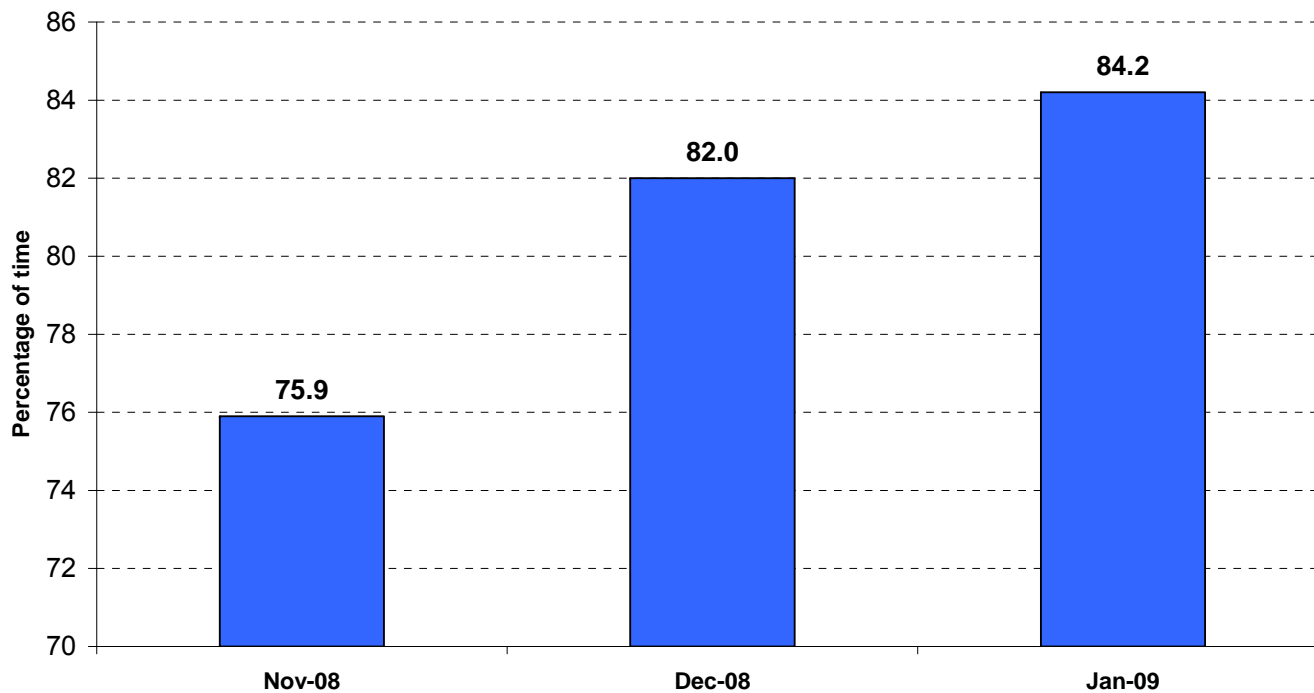
- Tariffs under review/changed on several occasions in recent years - to encourage liquidity and reward increased trading
- New fee structure introduced 1st September 2008 applies to all LSE trading clients
 - Reducing trading costs and accelerates growth
 - Rewards liquidity providers with credit scheme
 - Simplification of charges for taking liquidity with a value discount scheme
- Aligned with market requirements
- Producing step change in market liquidity and efficiency - to attract new members / users and facilitate new order flow and trading strategies
- Only exchange in Europe with a maker /taker structure



LSE offers the tightest spreads

- The London Stock Exchange's position as the best execution venue for FTSE100 securities

London Stock Exchange - percentage of time offering tightest Bid and Offer versus Chi-X and Turquoise

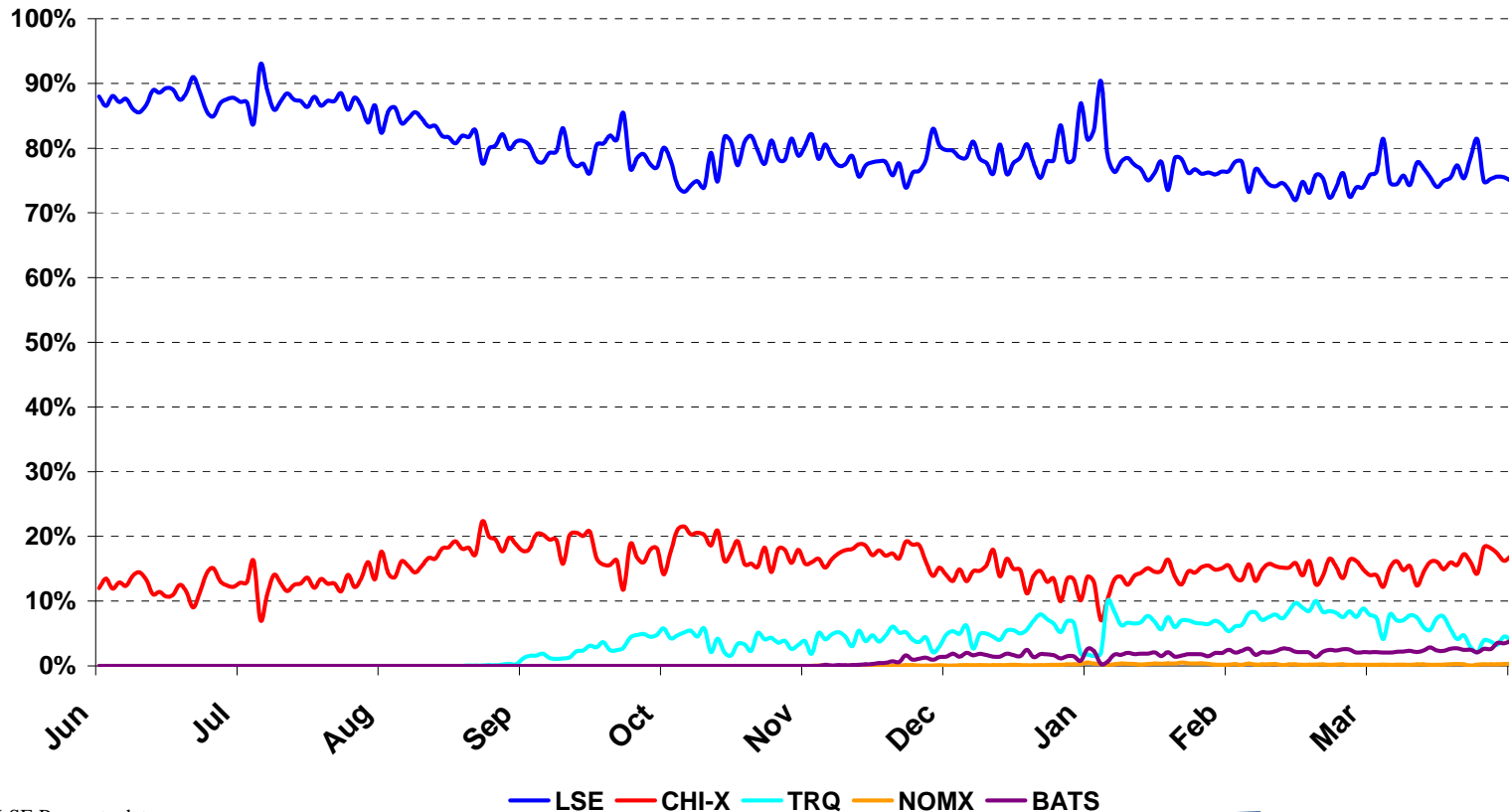




Market share dynamics - UK equities

LSE FTSE100 market share of electronic trading steady at 75% to 80% - Sept 2008 to March 2009

FTSE 100 share of electronic trading



Source: LSE Proquote data



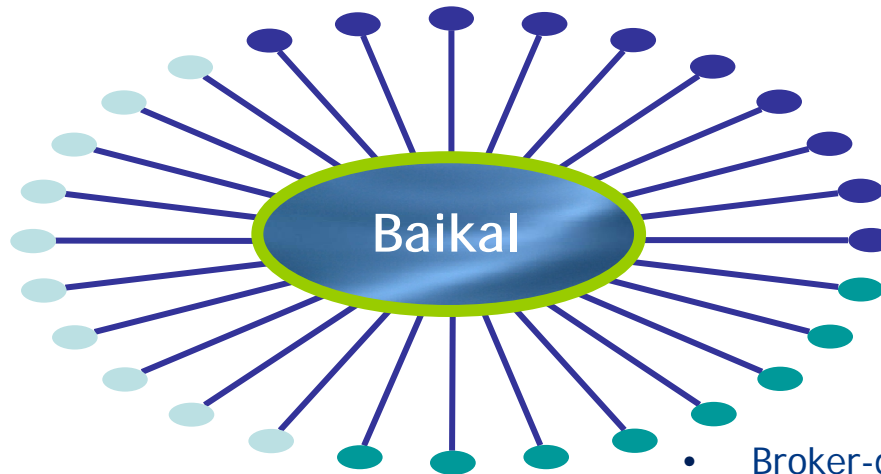
Developing to improve market efficiency

- TradElect
 - Capacity to double, latency to halve, new functionality
 - Hosting services
 - New ways of connecting to our services – FIX interface and FAST data broadcast
- Clearing
 - Competitive clearing
 - International Order Book CCP
- Baikal MTF – non display trading platform to use CC&G for pan-European clearing
- Derivatives – SOLA trading platform partnership with TMX Group

Baikal positioning - the ultimate liquidity aggregator

Baikal meets the buy-side need for efficient and low cost execution of very large trades

- Exchanges, MTFs, and other lit venue order books



- First true liquidity aggregator - committed to connecting to all possible liquidity venues
- Algorithmic trading and routing tools to reduce customer execution cost
- Non-display order book to provide and lower market impact costs

CLIENT LIQUIDITY

- Provision of liquidity
- Need for anonymity



- Broker-dealer liquidity and dark pools
 - Equity used to encourage broker liquidity
 - Tariffs, revenue share and other mechanisms



Distribution of trading/price data

- Quality and transparency of trading data has declined post MiFID (particularly OTC) - but the problem is data production, not data distribution
- US style consolidated tape is not a panacea - does not provide detailed data that market requires and expensive / difficult to establish on European basis
- Data vendor solutions (rather than imposed legislation) more likely to meet genuine market needs, faster and at lower cost - amalgamated market view from Fidessa, ThomsonReuters, Bloomberg, Proquote etc
- No change/issues for LSE - data already distributed through vendors to multitude of users
- Exchange provides a Europe-wide solution for post trade disclosure with a trade reporting service for all securities, distributed at no extra cost



Summary

- Market conditions remain challenging and uncertain in some areas
- Responding to market challenges and introducing new services/technology
- Highly attractive and successful Primary markets
- Deeply liquid, efficient and well connected trading venues
- Used to competition and adaptive to change
- Remain central price reference point and liquidity pool for UK and Italian cash equities
- Well positioned now and strengthening our competitive advantages



Appendix



FY2009 Q3 Interim Management Statement

Three months to 31 December 2008:

- Revenue up 4% to £171.0 million (down 3% at constant currency)

Nine months to 31 December 2008:

- Revenue up 5% to £516.5 million (down 1% on a pro forma basis at constant currency)

Key trends (including data for 11 months ending 28th February 2009):

- Issuer Services - IPOs subdued, strong increase in capital raising through further issues (£69bn of total £84bn)
- Trading Services - UK equities impacted by c32% fall in FTSE 100 and declining volumes in Italy
- Information Services - data users broadly resilient, LSE terminals down 3,500, Bit down 4,500 year on year
- Post Trade - clearing benefiting from higher margin calls and open interest remains strong
- Retain sound financial position

	Three months ended			Variance at constant currency	Nine months ended			Variance at constant currency
	31 December		Variance		31 December		Variance	
	2008	2007			2008	2007		
	£m	£m	%	%	£m	£m	%	%
Revenue								
Issuer	22.5	25.1	-10%	-15%	71.9	76.2	-6%	-10%
Trading	64.8	74.2	-13%	-17%	215.9	227.2	-5%	-9%
Information	47.1	41.1	15%	9%	136.9	118.1	16%	12%
Post Trade	30.9	19.3	60%	34%	77.6	60.3	29%	12%
Other income	5.7	4.7	21%	10%	14.2	11.6	22%	15%
Total revenue	171.0	164.4	4%	-3%	516.5	493.4	5%	-1%

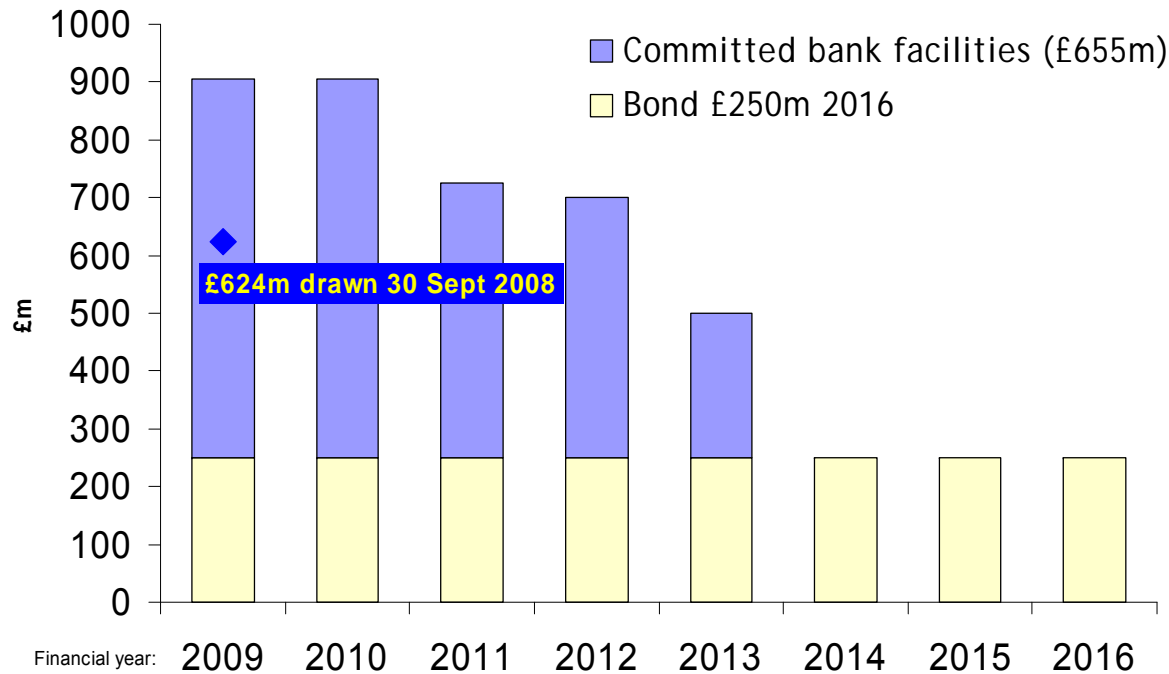


Control of operating costs

- H1 FY2009 operating costs flat at constant currency - and down c4% before Lehman bad debt
- H1 headcount down c3% (at 1179)
- Costs reflect “full service” exchange eg Issuer, RNS, Post Trade, MTS, Proquote
- Track record of controlling costs - 2004-7 (last FY disclosure before BIt merger) costs from £154m - £164m
- Synergies from Borsa Italiana merger - on track to deliver c£24m pa cost synergies
- But also continue to invest and develop - Baikal, AIM, SOLA etc

Net debt and borrowings

- Overall borrowing unchanged in H1, £624m drawn at 30 September 2008
 - £905m committed facilities; £700m to 2012 or beyond
 - £250m new 5 year revolving credit facility at rate of Libor +c80bps
 - £25m new 3 year bi-lateral in October
 - £200m revolving credit facility and £180m bridge facility extended



- £125m cash reserved for regulatory and operational purposes